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AZ CORP COMMISSION

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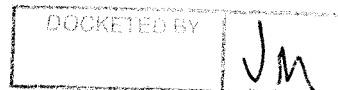
January 4, 2001

DOCKETED

JAN 05 2001

VIA OVERNIGHT DELIVERY

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007



Re: Response of ReFlex Communications, Inc., Docket No. T-03768A-99-0443

Enclosed please find an original and ten copies of the ReFlex Communications, Inc.'s most recent financial statements to supplement ReFlex's pending application to provide telecommunications services in Arizona in the above-referenced docket. Please date stamp the enclosed extra copy of this filing and return it in the self-addressed, postage-paid envelope provided.

Should you have any questions concerning this filing, please do not hesitate to contact me at 202-945-6940.

Very truly yours,

Paul B. Hudson
Counsel for ReFlex Communications, Inc.

Enclosures

cc: Service List

REFLEX COMMUNICATIONS, INC.
UNAUDITED FINANCIAL STATEMENTS

REFLEX Communications, Inc.
Balance Sheet
UNAUDITED

	<u>Dec 31, '99</u>
ASSETS	
Current Assets	
Cash	2,838,068
Total Accounts Receivable	7,839
Other Current Assets	
Allowance for Bad Debt	(1,713)
Inventory	12,936
Prepaid other	123,715
Total Other Current Assets	<u>134,938</u>
Total Current Assets	2,980,845
Fixed Assets, net	4,551,665
Other Assets	
Deposits	146,675
Other assets	103,049
Prepaid Lease Payment	148,344
Total Other Assets	<u>398,068</u>
TOTAL ASSETS	<u><u>7,930,578</u></u>
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Total Accounts Payable	1,338,318
Total Credit Cards	5,487
Other Current Liabilities	
Accrued employee expenses	519,235
Loan-Imperial Bank	116,667
Other accrued liabilities	33,369
Total Other Current Liabilities	<u>669,271</u>
Total Current Liabilities	2,013,076
Long Term Liabilities	
Capital Leases	294,520
Subscriber Deposits	15,000
Loan-Imperial Bank-L/T	233,333
Total Long Term Liabilities	<u>542,853</u>
Total Liabilities	2,555,929
Equity	
Capital	12,035,152
Retained Earnings	(750,916)
Net Income	(5,909,587)
Total Equity	<u>5,374,649</u>
TOTAL LIABILITIES & EQUITY	<u><u>7,930,578</u></u>

REFLEX Communications, Inc.
Profit and Loss
UNAUDITED

	<u>1Q99</u>	<u>2Q99</u>	<u>3Q99</u>	<u>4Q99</u>	<u>TOTAL</u>
Ordinary Income/Expense					
Income					
Installation Service	725	244	555	3,400	4,923
Internet Sales	2,549	10,361	25,188	36,279	74,378
NIC Card Sales	1,096	1,191	1,317	1,488	5,092
Total Income	<u>4,370</u>	<u>11,796</u>	<u>27,060</u>	<u>41,167</u>	<u>84,393</u>
Cost of Goods Sold					
Access charges	12,559	21,890	59,819	74,145	168,411
HUB Site Rents	10,535	11,459	14,375	39,697	76,068
IDF Internet Service	3,270	5,688	8,159	3,566	20,684
MDU Customer Prem	591	0	0	0	591
NIC Card Costs	1,315	1,542	932	1,955	5,744
Tech and Ops	0	0	0	27,879	27,879
Other cost of service	6,181	14,172	26,298	42,348	88,999
Rent of equipment	7,859	5,752	4,406	5,682	23,700
Vehicles	0	0	6,936	14,553	21,489
Web page content	395	450	5,450	0	6,295
Employee exp	0	0	0	337,909	337,909
Total COGS	<u>42,705</u>	<u>60,953</u>	<u>126,375</u>	<u>547,734</u>	<u>777,769</u>
Gross Profit	(38,335)	(49,157)	(99,315)	(506,567)	(693,376)
Expense					
Employee expenses	191,343	345,546	1,262,334	1,511,280	3,310,502
General and office	39,146	56,753	122,710	300,671	519,280
Professional and other	27,882	112,298	68,657	30,471	239,309
Travel & Entertain	14,259	41,662	85,619	116,036	257,576
Sales and Marketing	1,937	90,310	131,573	204,072	427,892
Technical and ops	28,780	8,895	31,599	39,853	109,128
Bad Debt Expense	0	0	0	1,713	1,713
Total Expense	<u>303,347</u>	<u>655,464</u>	<u>1,702,492</u>	<u>2,204,096</u>	<u>4,865,400</u>
Net Ordinary Income	(341,682)	(704,621)	(1,801,807)	(2,710,663)	(5,558,776)
Other Income/Expense					
Other Income					
Interest Income	301	55,043	63,346	91,068	209,758
Other Income	10	24	0	0	34
Rebates	0	0	0	167	167
Total Other Income	<u>311</u>	<u>55,067</u>	<u>63,346</u>	<u>91,235</u>	<u>209,959</u>
Other Expense					
Depreciation Expense	15,466	66,118	137,702	279,407	498,693
Interest Expense	16,639	17,983	10,165	17,290	52,077
Total Other Expense	<u>32,105</u>	<u>84,101</u>	<u>147,867</u>	<u>296,697</u>	<u>560,770</u>
Net Other Income	(31,794)	(29,034)	(84,521)	(205,462)	(350,811)
Net Income	<u>(373,476)</u>	<u>(733,655)</u>	<u>(1,886,328)</u>	<u>(2,916,125)</u>	<u>(5,909,587)</u>

ReFlex Communications, Inc.

Statement of Changes in Shareholders' Equity (Deficit)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Total Shareholders' Equity (Deficit)
Balance at December 31, 1997	-	\$ -	5,000,000	\$ -	\$ -	-
Issuance of common stock for cash	-	-	5,600,000	290,000	-	290,000
Issuance of common stock in exchange for services	-	-	500,000	5,000	-	5,000
Contribution of assets by a shareholder	-	-	-	2,775	-	2,775
Issuance of common stock pursuant to anti-dilution provisions under stock purchase agreement	-	-	366,670	-	-	-
Value ascribed to warrants	-	-	-	687	-	687
Stock compensation expense	-	-	-	275,000	-	275,000
Net loss	-	-	-	-	(750,916)	(750,916)
Balance at December 31, 1998	-	\$ -	11,466,670	\$ 573,462	\$ (750,916)	\$ (177,454)
Issuance of preferred stock for cash	35,413,851	10,589,972	-	-	-	10,589,972
Conversion of notes payable into preferred stock	2,451,233	732,968	-	-	-	732,968
Issuance of common stock pursuant to anti-dilution provisions under stock purchase agreement	-	-	655,775	-	-	-
Value ascribed to warrants	-	-	-	6,000	-	6,000
Exercise of stock options	-	-	510,000	132,750	-	132,750
Net loss	-	-	-	-	(5,909,587)	(5,909,587)
Balance at December 31, 1999	37,865,084	\$ 11,322,940	12,632,445	\$ 712,212	\$ (6,660,503)	\$ 5,374,649

ReFlex Communications, Inc.
Unaudited Statements of Cash Flows

	Year ended Dec '98	Year ended Dec '99
OPERATING ACTIVITIES		
Net loss	\$ (750,916)	\$ (5,909,337)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation	3,416	\$ 498,693
Allowance for Bad Debt	-	\$ 1,713
Non cash compensation	280,000	\$ -
Accounts receivable	(800)	\$ (7,022)
Inventory	-	\$ (12,937)
Prepaid assets and other	(36,337)	\$ (87,378)
Prepaid lease payment	-	\$ (117,754)
Accounts payable and other	131,381	\$ 340,058
Accrued payroll and other benefits	49,574	\$ 440,632
Other accrued liabilities	62,230	\$ 4,464
Net cash used in operations	(261,452)	(4,848,918)
INVESTING ACTIVITIES		
Purchases of property and equipment	(30,439)	\$ (3,696,279)
Deposits	(2,650)	\$ (135,624)
Other	(2,866)	\$ (127,920)
Net cash used by investing activities	(35,955)	(3,959,822)
FINANCING ACTIVITIES		
Capital Leases payments	(8,051)	\$ (149,924)
Capital Leases financings	-	\$ -
Term equipment loan	-	\$ 350,000
Convertible notes payable	50,000	\$ 489,000
Loans from shareholders	21,750	\$ (21,750)
Sale of stock	290,000	\$ 10,790,440
Exercise of stock options/warrants	-	\$ 132,750
Net cash provided by financing activities	353,699	11,590,516
 Change in cash during period	 56,292	 2,781,776
Cash at beginning of period	-	56,292
Cash at end of period	56,292	2,838,068
 Interest paid	 \$ 369	 \$ 89,927
Non-cash investing and financing activities:		
Purchase of property included in accts payable	\$ 225,031	\$ 646,583
Purchase of property financed with capital leases	\$ 105,165	\$ 347,462
Conversion of debt into equity	\$ -	\$ 532,500
Contribution of assets by shareholder	\$ 2,775	\$ -
Value ascribed to warrants	\$ 687	\$ -

UNAUDITED -- See Notes to Financial Statements

REFLEX COMMUNICATIONS INC.
NOTES TO UNAUDITED FINANCIAL STATEMENTS

- (1) **ORGANIZATION AND BACKGROUND:** ReFlex Communications, Inc. (the "Company" or "ReFlex") was incorporated on October 15, 1997 and currently operates in the following markets: Seattle, Washington; Portland, Oregon; and Phoenix, Arizona. The company has sales and operational personnel in Northern California, Southern California and Denver, Colorado. The Company headquarters are located in Seattle, Washington.

The Company provides wireless broadband Internet services to residents of multi-dwelling units (MDUs). From its inception (October 1997) until December 1998, the Company primarily focused on developing a business plan, hiring management and other key personnel, designing the network, raising capital, acquiring equipment and acquisition of rights of entry agreements with MDUs. The Company began promotional services in December 1998. The Company operates in one business segment.

- (2) **BASIS OF PRESENTATION:** The accompanying unaudited internal financial statements are presented as of December 31, 1999 and for the period ended December 31, 1999. The unaudited internal financial statements reflect all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary to present a fair statement of the results of the period presented. These internal financial statements do not include all disclosures required by generally accepted accounting principles.
- (3) **NOTE PAYABLE:** The Company entered into a Loan and Security Agreement with its primary bank on August 6, 1999. This agreement consists of a \$500,000 working capital or term equipment facility and a \$100,000 facility to support a corporate credit card program. The company drew \$350,000 on the facility in September 1999 to finance prior capital purchases. The facility accrues interest at the bank's prime rate plus one half percent. Interest only payments are due monthly until February 2000, after which interest and principal are due during the next 30 months.
- (4) **LEASE AGREEMENT:** The Company entered into a Master Lease Agreement with a diversified financial services company on December 9, 1999. The lessor's commitment is \$25,000,000 and can be used to fund equipment used to deploy the Company's high speed data access network to our subscribers. In addition, the Company can add to a lease schedule office equipment, capped at 10% of the total amount funded under the schedule, and "soft costs" which are limited to software, engineering, installation costs, wiring, etc, capped at 15% of the total amount funded under the schedule. The Company has agreed to certain operational and financial covenants including but not limited to revenue, earnings before interest, tax, depreciation & amortization, net worth and customer targets in conjunction with this agreement.
- (5) **EQUITY:** The Company is authorized to issue 40,000,000 shares of Preferred Stock and 70,000,000 shares of Common Stock. In May 1999, the Company received \$10.6 million through the issuance of 35,412,039 shares of Series A

Preferred Stock. In May 1999, holders of convertible notes payable in the amount of \$733,510 were converted into 2,453,045 shares of Series A Preferred Stock.

REFLEX Communications, Inc.

Profit and Loss

January through September 2000

Ordinary Income/Expense	Jan - Mar '00	Apr - Jun '00	Jul - Sep '00	TOTAL
Income				
5600000 · Installation Service	3,594	14,560	47,185	65,339
5700000 · Internet Sales	69,096	177,009	363,495	609,600
5750000 · Modem Sales	1,942	5,645	6,237	13,824
5800000 · NIC Sales	1,038	2,881	5,318	9,237
Total Income	75,670	200,095	422,235	698,000
Cost of Goods Sold				
6000000 · Access charges	185,323	367,657	833,961	1,386,941
6100000 · HUB Site Rents	45,579	69,991	105,357	220,927
6150000 · Colocation Fees	32,907	45,370	103,796	182,073
6200000 · IDF Internet Service	15,158	41,028	49,060	105,246
6320000 · NIC Costs	15,000	37,412	47,049	99,461
6330000 · Tech and Ops	45,973	82,891	79,817	208,681
6500000 · Other Cost of Service	43,582	138,876	178,934	361,392
6660000 · Rent of Equipment	3,611	16,508	(8,107)	12,012
6680000 · Vehicles	13,916	22,484	21,009	57,409
6700000 · Web page content	598	0	0	598
6800000 · Employee exp	627,467	1,027,662	1,235,682	2,890,811
Total COGS	1,029,114	1,849,879	2,646,558	5,525,551
Gross Profit	(953,444)	(1,649,784)	(2,224,323)	(4,827,551)
Expense				
7000000 · Employee expenses	2,036,119	3,225,533	3,863,772	9,125,424
7300000 · General and office	386,052	620,009	826,244	1,832,305
7700000 · Professional and other	32,805	117,627	205,074	355,506
8150000 · Travel & Entertainment	215,597	448,312	303,681	967,590
8200000 · Sales and Marketing	223,086	212,032	281,444	716,562
8700000 · Technical and ops	72,582	19,373	34,316	126,271
8930000 · Bad Debt Expense	3,807	10,005	24,746	38,558
8950000 · Uncategorized Expenses	0	0	0	0
Total Expense	2,970,048	4,652,891	5,539,277	13,162,216

REFLEX Communications, Inc.

Profit and Loss

January through September 2000

	Jan - Mar '00	Apr - Jun '00	Jul - Sep '00	TOTAL
Net Ordinary Income	(3,923,492)	(6,302,675)	(7,763,600)	(17,989,767)
Other Income/Expense				
Other Income				
9008000 · Interest Income	27,984	37,884	67,264	133,132
9108000 · Other Income	0	0	104	104
Total Other Income	27,984	37,884	67,368	133,236
Other Expense				
9409000 · Depreciation Expense	615,493	1,082,323	1,717,866	3,415,682
9509000 · Interest Expense	37,199	435,713	431,121	904,033
Total Other Expense	652,692	1,518,036	2,148,987	4,319,715
Net Other Income	(624,708)	(1,480,152)	(2,081,619)	(4,186,479)
Net Income	<u>(4,548,200)</u>	<u>(7,782,827)</u>	<u>(9,845,219)</u>	<u>(22,176,246)</u>

11/30/00

REFLEX Communications, Inc.

Balance Sheet

As of September 30, 2000

Sep 30, '00

ASSETS

Current Assets

Checking/Savings

1001010 · Imperial - General Checking

-775,109.67

1001020 · Imperial - Monarch Fund

8,361,575.59

1001025 · Imperial - Payroll

-16,228.04

1002025 · SeaFirst Bank - Payroll Account

33,284.51

Total Checking/Savings

7,603,522.39

Accounts Receivable

1300000 · Accounts Receivable

69,126.76

Total Accounts Receivable

69,126.76

Other Current Assets

1120 · Inventory Asset

37,566.46

1300010 · Allowance for Bad Debt

-38,474.83

1300020 · Portal System A/R (Bld/UnBld)

40,661.24

1700000 · Inventory

35,065.44

1800000 · Prepaid Other

369,423.81

Total Other Current Assets

444,242.12

Total Current Assets

8,116,891.27

Fixed Assets

2000000 · Fixed Assets Summary

23,294,452.51

Total Fixed Assets

23,294,452.51

Other Assets

3000000 · Deposits

266,423.82

3100000 · Other assets

29,439.46

3400000 · Prepaid Lease Payment

63,379.40

Total Other Assets

359,242.68

TOTAL ASSETS

31,770,586.46

Balance Sheet

As of September 30, 2000

Sep 30, '00

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

4000000 · Accounts Payable

7,139,695.89

Total Accounts Payable

7,139,695.89

Other Current Liabilities

4200000 · Accrued employee expenses

1,674,141.86

4300000 · Current Portion Imperial Bank

116,666.67

4310000 · Current Portion Capital Lease

1,584,882.00

4400000 · Other Accrued Liabilities

-11,857.63

Total Other Current Liabilities

3,363,832.90

Total Current Liabilities

10,503,528.79

Long Term Liabilities

4600000 · Capital Leases

3,984,795.05

4700000 · Subscriber Deposits

14,530.00

4800000 · Loan-Imperial Bank-L/T

163,333.31

Total Long Term Liabilities

4,162,658.36

Total Liabilities

14,666,187.15

Equity

3900 · Retained Earnings

-6,728,391.48

Net Income

-22,176,246.45

5000000 · Capital

46,009,037.24

Total Equity

17,104,399.31

TOTAL LIABILITIES & EQUITY

31,770,586.46